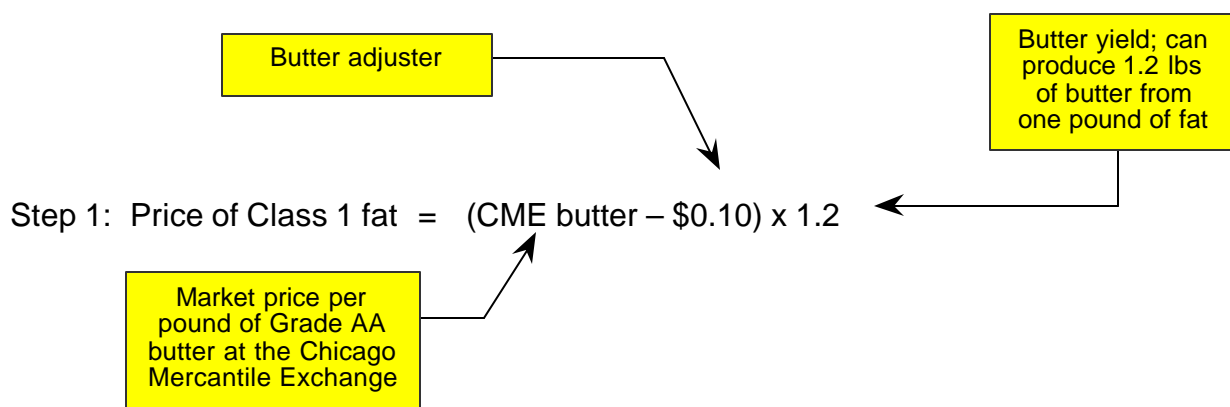
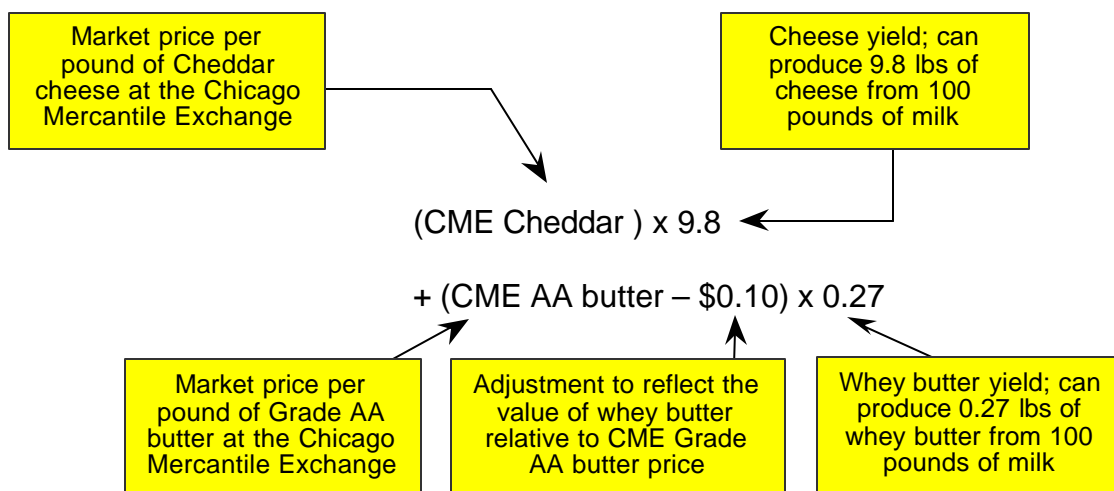


Calculating the Class 1 price formula for fluid milk products

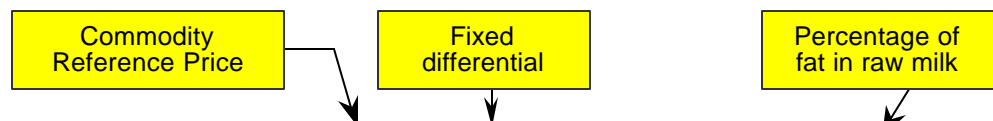
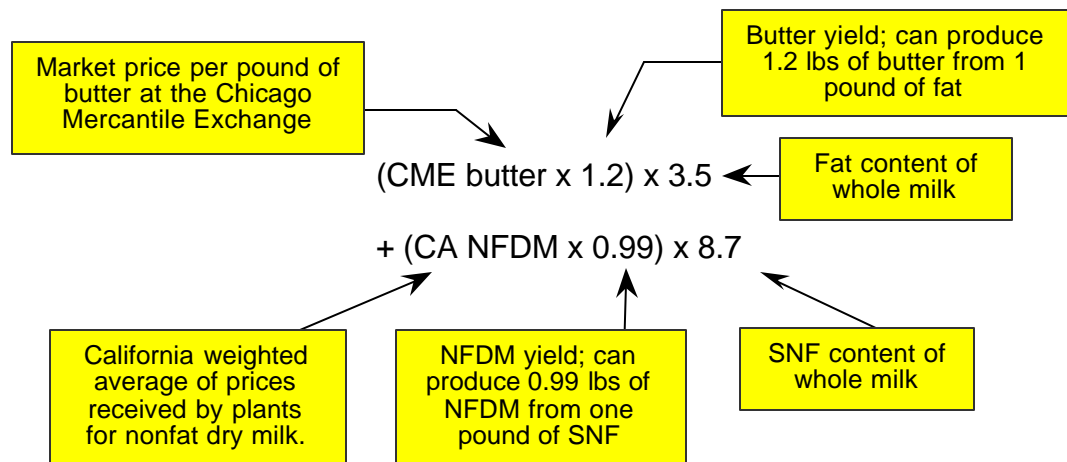
Determining the price for fluid milk products involves several steps. The Class 1 fat price for fluid milk pricing formula is set directly and uses the Chicago Mercantile Exchange (CME) butter price with an adjustment. The SNF and carrier prices are calculated as residuals. They rely on a basic price mover called the commodity reference price (CRP) which is based off the higher of the CME price for Cheddar cheese or the CME Grade AA butter and California weighted average price for nonfat dry milk. The Class 1 fat price is subtracted from the CRP and the remaining residual value is allocated to SNF and carrier. Once the component prices have been assigned to fat, SNF, and fluid carrier portions of milk, the implied value of raw milk can be calculated.



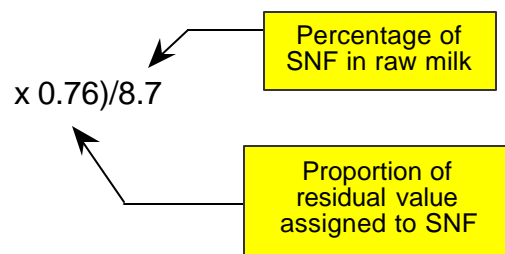
Step 2: Commodity Reference Price = the **higher of** two price calculations:



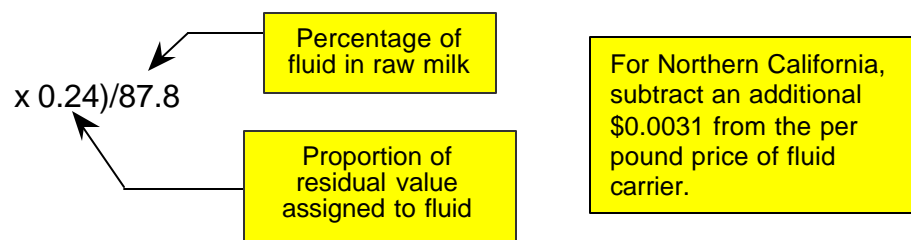
OR



Step 3: Price of Class 1 SNF = (((CRP + \$0.464) – (Class 1 fat price x 3.5))



Step 4: Price of Class 1 fluid = (((CRP + \$0.464) – (Class 1 fat price x 3.5))



Step 5: Class 1 price per 100 pounds of milk (@3.5% fat and 8.7% SNF)

$$= (3.5 \times \text{Class 1 fat}) + (8.7 \times \text{Class 1 SNF}) + (87.8 \times \text{Class 1 carrier})$$